

VZCZCXRO3048

PP RUEHDBU RUEHFL RUEHKW RUEHLA RUEHNP RUEHROV RUEHSL RUEHSR

DE RUEHBM #0723/01 3020527

ZNY CCCCC ZZH

P 290527Z OCT 09

FM AMEMBASSY BUCHAREST

TO RUEHC/SECSTATE WASHDC PRIORITY 0008

INFO RUEHDL/EUROPEAN POLITICAL COLLECTIVE PRIORITY

RHEHNSC/NSC WASHDC PRIORITY

RUEAIIA/CIA WASHINGTON DC PRIORITY

RUEATRS/DEPT OF TREASURY WASHDC PRIORITY

RUCPDOC/DEPT OF COMMERCE WASHDC PRIORITY

C O N F I D E N T I A L SECTION 01 OF 02 BUCHAREST 000723

SIPDIS

STATE FOR EUR/CE ASCHIEIBE AND EEB/IFD/OMA
TREASURY FOR LKOHLER AND JBAKER

E.O. 12958: DECL: 10/28/2019

TAGS: ECON EFIN PGOV IMF EUN RO

SUBJECT: ROMANIA WON'T MEET 2009 IMF OBLIGATIONS, BASESCU
SAYS

REF: BUCHAREST 563 AND PREVIOUS

Classified By: DCM Jeri Guthrie-Corn for Reasons 1.4 (B) and (D).

¶1. (SBU) With a joint assessment team from the International Monetary Fund (IMF), European Commission (EC), and World Bank (WB) having arrived in Bucharest this week to review Romania's compliance, President Traian Basescu declared to reporters that Romania will not meet all its obligations to the IMF by the end of 2009 and the existing agreement (reftels) will have to be amended for 2010. Basescu made the statement during a campaign stop in which he blamed the opposition PSD and PNL parties for bringing down the PDL-led government of Prime Minister Emil Boc and thus complicating Romania's ability to meet its commitments. Basescu acknowledged what economic observers have been speculating ever since the Boc Government fell earlier this month, namely that the current political stalemate in advance of presidential elections makes it virtually impossible for Romania to pass key legislation required under its Letter of Intent with the IMF before December 31.

¶2. (C) In an October 15 meeting, IMF Resident Representative Tonny Lybek told the Ambassador that the assessment visit would have to be postponed until a new Cabinet was in place and approved by Parliament, virtually assuring that the next IMF disbursement would be pushed into early 2010. However, the Government of Romania (GOR) mounted a full-court press for the visit to go forward, fearing that a postponement would only feed political instability and further damage Romania's already shaky image in international markets. The GOR is believed to have met the agreement's technical criteria through the end of the third quarter (i.e., ending September 30), with the budget deficit through the first nine months of 2009 estimated at 5.1 percent of GDP, below the 5.4 percent target for the period. The current account deficit and inflation have also fallen even faster than initially predicted. However, the crucial judgment call for the IMF team will be whether Romania's inability to legislate major structural reforms by year's end will affect disbursement of the next IMF funding tranche in December.

¶3. (C) Pressing for the assessment to take place as planned is a high-stakes gamble for the GOR, given that Boc's caretaker government can make no binding commitments and is certain to be replaced in the coming weeks. Still, the GOR appears intent on preserving every possible chance of receiving the next IMF disbursement before the end of 2009. Much more than Romania's image is at stake. Even though Romania has so far stayed within the GDP deficit targets agreed with the IMF, the deficit traditionally balloons sharply in the 4th quarter, and the GOR is counting on the IMF money (some 1.5 billion euros) to cover salaries, pensions, and other vital expenditures through the end of the

year. The economy still shows few signs of recovery, holding out little hope for any short-term improvement in tax revenues. At the same time, the Ministry of Finance is struggling to sell enough debt in the domestic market to finance the deficit. The Ministry this week rejected all bids at a tender to sell one-year treasury bills, indicating that the yields being demanded by domestic banks were too high; at a previous tender on October 19 the accepted yield was set at ten percent. The Ministry has similarly rejected bids or trimmed sales amounts several times in the last couple of months, and has indefinitely postponed a Eurobond issue targeted for October due to the continuing political uncertainty. All this suggests that, absent the IMF infusion, the GOR may face a severe funding crunch by December.

¶4. (C) At the October 15 meeting, IMF Representative Lybek outlined the essential legislative approvals the IMF is still seeking from Romania in 2009: a 2010 budget law which demonstrates realistic revenue projections and convincing measures to contain spending excesses; a pension reform bill; and a "fiscal responsibility act" which restructures the way the GOR conducts its annual budgeting and forecasting exercises. Lybek noted that the Boc Government had succeeded in getting the fourth major piece of legislation, the unitary salary law, through Parliament in September, though it was the battle over this law which precipitated PSD party withdrawal from the coalition government. The law has subsequently been challenged in Romania's Constitutional Court, which was set to rule on the case this week but announced it would postpone its decision until December 9, after the presidential election. Lybek insisted that, no matter the political environment, the 2010 budget must have

BUCHAREST 00000723 002 OF 002

parliamentary approval to demonstrate that Romania's political establishment is committed to respecting the IMF agreement through 2010. This theme was echoed to the Ambassador on October 26 by National Bank of Romania (BNR) Governor Mugur Isarescu, who said all parties have declared rhetorical support for the agreement but must now demonstrate, during the presidential campaign and its aftermath, that their commitment is real. Isarescu wasn't optimistic, characterizing as "highly improbable" the chance that Parliament will pass a budget to the IMF's liking by December 31.

¶5. (C) Comment: The IMF has shown Romania leniency already this year in response to the severity of the recession, modifying the accord to nearly double the allowed budget deficit and agreeing to let IMF money be used for direct GOR spending. Romania's lame duck government is now pleading for clemency once again, arguing it deserves the next tranche of money purely on the basis of technical targets met through September even while acknowledging that it cannot deliver the major legislative reforms promised in 2009. Nor can the GOR assure the IMF on when real action will follow, since the makeup of the next government could remain unresolved for weeks yet. The IMF's prior flexibility stemmed, in part, from recognition that the deep recession was driven by many factors beyond the GOR's direct control. This time, however, the impasse on structural reforms is all about domestic politics. The IMF will have to weigh carefully the downsides to Romania if it withholds the money, versus the potential downsides to the IMF's own credibility if it gives Romania another pass. End comment.

GITENSTEIN